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## **Priority Sector Lending Guidelines**

*(Towards Promotion of Cottage and Small Industry)*

## **Technical Window Services of the Government Standard Operating Procedure**

**July 2021**

## **Priority Sector Lending Guidelines Technical**

### **Window Services of the Government**

#### **Standard Operating Procedure**

#### **1. Background**

The Priority Sector Lending (PSL) Guidelines is an integrated platform that will coordinate the interventions of the Government agencies with improved access to finance from the Financial Institutions in order to stimulate the Cottage and Small Industries (CSI) sector as an important driver of Bhutan's economic transformation. Integration and coordination will be effected through the following three channels:

##### **i. Special Technical Window Services of the Government in the form of Dzongkhag PSL Committees**

The support and interventions of the Government will be channeled through a special technical window service operated through a Dzongkhag PSL Committee instituted in each Dzongkhag. The Dzongkhag PSL Committee will be chaired by the Dzongdag and the EDO shall be the member secretary of the committee with representatives from all relevant stakeholders. The Committee will be responsible for coordinating the regulatory clearances and other support schemes from the various sectors of the Government. The Committee will also coordinate with the Financial Institutions.

##### **ii. Special Credit Channels in each of the Financial Institutions**

Each financial institution will ensure seamless service delivery by identifying appropriate focal persons and instituting credit delivery channels that will provide prospective PSL clients with all the requisite information and support as well as coordination with the Government's special technical window.

##### **iii. PSL Council**

The PSL council will review and evaluate the implementation of the PSL Guidelines and provide recommendation to continuously improve the Guidelines. The Council will be chaired by the RMA and comprise of representatives from all government and financial sector partners.

The terms of reference and processes to be followed in ensuring coordination and efficient service delivery to prospective PSL clients by the Government stakeholders are articulated in this **Standard Operating Procedure** document to be used in conjunction with the PSL Guidelines.

## 2. Special Technical Window Services of the Government

### 2.1 Mode of Service Delivery and Member Composition

- 2.1.1 The special technical window services of the Government will be operated through a **Dzongkhag PSL Committee** instituted in each Dzongkhag, empowered by Government Order C-2/823, dated 1 January 2018;
- 2.1.2 The Dzongdag will be the chair and the EDO will be the member secretary of the committee;
- 2.1.3 The Committee will comprise Dzongkhag-level representatives from all relevant stakeholders. While the following provides an indicative list of stakeholders, the Committee may review the list and include other relevant stakeholders:
- Ministry of Agriculture and Forests – Department of Livestock (DoL), Department of Agriculture (DoA), Department of Forests and Park Services (DoFPS), Department of Agricultural Marketing and Cooperatives (DAMC), Bhutan Agriculture and Food Regulatory Authority (BAFRA);
  - Ministry of Economic Affairs - Regional Trade and Industry Office;
  - Ministry of Labour and Human Resources;
  - Ministry of Education;
  - Gross National Happiness Commission;
  - National Land Commission;
  - National Environment Commission; and
  - Economic Development Officer, MoEA.
- 2.1.4 Those sectors that do not have a Dzongkhag-level presence will identify a focal staff who will coordinate with the Committee and who will be available whenever his/her physical presence is required;
- 2.1.5 In the absence of EDO, the Committee will identify one sector head from among its members to act as the Committee Secretary for a tenure decided by the Committee;
- 2.1.6 The Committee will be supported by sectors that have presence in the Gewogs for field visits, verifications and technical feasibility assessments, where required. Sectors that do not have Gewog-level presence will depute relevant staff to jointly conduct the field verifications and technical feasibility assessments;
- 2.1.7 The Committee will identify one Gewog-level staff and one Dzongkhag-level staff to lead all Gewog level and Dzongkhag level activities for those PSL proposals that do not have a sector representation at these two levels, respectively. However, the focal staff of these sectors as identified under provision 2.1.4 will support the coordination of their respective sectors and

ensure physical presence where necessary;

2.1.8 Sectors that do not have Dzongkhag-level presence will work on a medium-term strategy on addressing this gap and ensuring their presence; and

2.1.9 The Committee will work closely with local government leaders and other competent agencies.

## **2.2 Responsibilities of the Dzongkhag PSL Committee**

2.2.1 Assess proposals of PSL applicants and ensure full due diligence while assessing the proposals, taking into account technical feasibility assessments from the Gewogs, if any, while assessing the proposals;

2.2.2 Provide regulatory clearances and other eligible government support schemes for successful PSL proposals;

2.2.3 Coordinate with sector head offices and other competent authorities where necessary for clearances that need to be obtained from them;

2.2.4 Ensure minimal turn-around-time in assessing proposals and work with sector head offices and other competent authorities to expedite clearances;

2.2.5 Monitor successful PSL proposals to ensure implementation and assist financial institutions with recoveries and timely renewal of insurance policy;

2.2.6 Provide guidance to prospective clients and assist in identifying potential business opportunities and further support that the Government could provide;

2.2.7 Create awareness among the general public on the PSL Guidelines and procedures;

2.2.8 The Committee, through the Committee Secretary, will maintain dated records of PSL-related activities pertaining to the number of proposals received and the outcome of the assessment. This information will be shared with the PSL Council;

2.2.9 The Committee will meet as often as necessary to assess PSL proposals. Meetings must be organized to ensure that PSL proposals are assessed by the Committee within a turn-around time of 15 working days after the complete proposals are received; and

2.2.10 A Committee meeting must have at least 2/3<sup>rd</sup> of the members present. Absentee sectors must send a competent officiating representative or written communication if their feedback is required.

## **2.3 Responsibilities of Stakeholders in the Dzongkhag PSL Committee**

- 2.3.1 As Chair of the Committee, the Dzongdag will lead all PSL-related activities of the Committee;
- 2.3.2 The Dzongkhag sector heads will serve as members of the Dzongkhag PSL Committee;
- 2.3.3 The focal staff of sectors that do not have a Dzongkhag-level presence (as identified under provision 2.1.4) will coordinate with the Committee whenever the interventions and/or physical presence of their sectors are required;
- 2.3.4 Members will submit periodic progress reports on successful PSL projects to the Chair of the Committee;
- 2.3.5 The respective sector heads will coordinate with their Gewog counterparts and other competent authorities to ensure that all documentations are in place for assessment by the Committee;
- 2.3.6 The respective sectors will provide technical support and guidance to Gewog-level staff and coordinate with head office / regional office / other competent authorities for technical support, where required;
- 2.3.7 Members will provide technical recommendations within their areas of expertise to help the Committee assess the PSL proposals;
- 2.3.8 Sectors will assist PSL clients in obtaining all the mandatory clearances and in accessing government support schemes;
- 2.3.9 Sector heads will coordinate with the Committee Secretary to submit proposals for the meetings of the Committee;
- 2.3.10 The Committee Secretary will coordinate the meetings and maintain dated records of the meetings;
- 2.3.11 Sector heads will coordinate with the financial institutions on tracking and monitoring successful PSL proposals; and
- 2.3.12 The sector head under whose purview the PSL proposal falls will be responsible for leading all the coordination activities listed above. If the sector does not have a presence, a staff identified by the Committee (provision 2.1.7) will lead the activities and work closely with the focal staff of that sector (as identified under provision 2.1.4).

## **2.4 Responsibilities of Stakeholders at the Gewog Level**

- 2.4.1 Create awareness among the general public on the PSL Guidelines and procedures;
- 2.4.2 Provide technical backstopping and assist clients in identifying potential business opportunities;
- 2.4.3 Facilitate access to the PSL application forms and assist clients in meeting the documentation requirements (technical support, filling out the forms etc);
- 2.4.4 While the Gewog staff should receive PSL applications and assist the clients on any working day, Mondays should be fully designated to ensure that staff are available to entertain PSL clients in their workspaces;
- 2.4.5 Coordinate with other sectors and competent authorities to conduct field visits and technical feasibility assessments. The staff will contact other relevant stakeholders and organize the joint field visit within 10 working days of having received the PSL application;
- 2.4.6 Coordinate with other sectors and competent authorities in obtaining local clearances where required;
- 2.4.7 Assist clients to identify and process lease of government land where applicable;
- 2.4.8 Prepare the technical feasibility report duly signed by all other relevant sector representatives and forward all documents, including local clearances where required, on behalf of the client to the Dzongkhag PSL Committee. The technical feasibility report and other documents must be forwarded to the Dzongkhag PSL Committee within 10 working days of the joint field visit;
- 2.4.9 Provide technical supervision and support throughout the project implementation phase, and assist financial institutions in monitoring the projects;
- 2.4.10 Conduct quarterly monitoring to assess the progress of the projects and accordingly submit progress reports to the Dzongkhag PSL Committee;
- 2.4.11 Maintain dated records of PSL-related activities pertaining to the number of proposals received, proposals forwarded to the Dzongkhag PSL Committee and successful proposals. This information should be available for the review of the Dzongkhag PSL Committee and the PSL Council;
- 2.4.12 Submit periodic progress reports to the Dzongkhag PSL committee on successful projects;
- 2.4.13 The Gewog field staff under whose purview the PSL proposal falls will be

responsible for leading all the activities listed above. In case a PSL proposal does not have a sector representative at the Gewog level, the Gewog field staff identified by the Dzongkhag PSL Committee (provision 2.1.7) will lead all the activities and work closely with the focal staff of that sector (as identified under provision 2.1.4); and

2.4.14 Gewog level staff will work closely with the local leaders and also get the recommendations of the local leaders, where relevant.

## **2.5 Pre-requisites and Processes**

2.5.1 The following pre-requisites must be completed before any further assessments are carried out:

2.5.1.1 Report from the Credit Information Bureau (CIB) with no adverse records. The CIB report can be accessed from any financial institution or the Gewog Community Centers;

2.5.1.2 Security Clearance;

2.5.1.3 Preliminary Land Clearance from NLC for proposals requiring use of state land;

2.5.1.4 Community clearance for livestock-related projects and projects requiring environmental clearance and projects requiring use of state land;

2.5.1.5 Registration from DAMC or DOF for agriculture, livestock or forestry-related business proposals to be carried out by groups / or cooperatives; and

2.5.1.6 The eligible list of priority activities is appended as part of the PSL Guidelines. In case a proposal has not been identified in the list, the proposal should be forwarded to the PSL Council through the respective sector for review, along with recommendations if any on whether to include the activity in the priority list.

The following procedural chart provides an indicative guide for the processes involved:

**(1) Pre-requisites**

CIB report; Security Clearance; Preliminary Land Clearance (projects requesting use of State land); Community Clearance (Livestock-projects, projects requiring environmental clearance & projects requesting use of State land); Registration certificate from MOAF for groups/cooperatives for Agricultural CSI projects

Yes

No

**(3) PSL Application**

- ✓ Assist clients to fill out the PSL Application Form, process for required clearances and coordinate with relevant sectors to conduct joint field visit, where required – to be completed within 15 working days of receipt of complete documents.
- ✓ Forward completed PSL Application Form, Technical Feasibility Report and Sector Clearances (where required) to the Dzongkhag PSL Committee – within 10 working days of field visit, where field visits are required.
- ✓ Any pending clearances that are not received within the turn-around-time will be highlighted and also forwarded to the Dzongkhag PSL Committee
- ✓ Maintain dated-records of all proposals and outcomes (successful and unsuccessful projects)

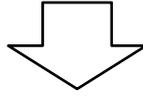
**(2) Assist clients by directing them to the relevant authorities:**

- ✓ CIB report can be obtained from any financial institution or from the Community Centers
- ✓ Application for Preliminary Land Clearance along with relevant clearances have to be forwarded to the Dzongkhag NLC focals for subsequent assessments and field survey.
- ✓ Client will process for community clearance, if needed (endorsed by the respective Tshogpa)

**(4) Assessment by Dzongkhag PSL Committee**

- ✓ Coordinate with Competent Authorities to expedite pending clearances
- ✓ Assess proposal, taking into consideration technical feasibility reports where available (to be completed within 15 working days of receipt of PSL Application Form and other complete documentations)
- ✓ Provide approval on the PSL Application Form for successful proposals
- ✓ Forward a copy of approved PSL Application to NLC through the DLLC for final land clearance, where relevant
- ✓ Notify clients so that successful proposals can be taken to the Financial Institutions for credit appraisal
- ✓ Assist successful clients in accessing existing Government support schemes and incentives
- ✓ Propose additional interventions and support from the Government, if needed
- ✓ Monitor successful PSL proposals to ensure implementation and assist financial institutions with recoveries and timely renewal of insurance policy.
- ✓ Validate necessary documents including sales deed, lease agreement etc, where applicable.

PSL Projects Approved by the Dzongkhag PSL Committee



**(5) Credit Appraisal by the Financial Institutions**

- ✓ FI Application Form
- ✓ Business Proposal Form for project sizes above Nu.0.5 million (FIs will assist clients in filling the forms)
- ✓ Projects assessed to be credit-worthy will process for a CSI license with the DCSI (Approved PSL Application Form and letter from the FI will be submitted to the DCSI along with the license fee to be paid by the client through the Government to Citizen services website)
- ✓ Commence loan disbursements after client provides CSI license
- ✓ Provide copy of loan sanction letter to the Dzongkhag PSL Committee
- ✓ The respective checklists of the financial institutions will be circulated to dzongkhag PSL committee.

**3. Documentations for PSL**

3.1 The following forms are appended with this SOP:

- i. Application form for Preliminary Land Clearance (Annexure IV);
- ii. Application form for registration certificate for groups/cooperative from MOAF (for Agricultural CSI projects);
- iii. PSL Application Form and forms for various sector clearances forming part of the annexures of the PSL Application Form;
- iv. Application Form for Financial Institutions (for all PSL projects); and
- v. Business Proposal Form (for PSL projects above Nu.0.5 million).

*Note: All the above forms are available online on the RMA's website ([www.rma.org.bt](http://www.rma.org.bt)).*

3.2 While sectors have specific criteria to consider when conducting the technical feasibility assessments, the following basic criteria have been provided by the Department of Livestock, MOAF to assist field staff when conducting feasibility for the establishment of any livestock farm enterprises:

- 3.2.1 Availability of own registered land to establish livestock farm is highly preferred as the client does not have to process with Government for land lease;
- 3.2.2 In the absence of own registered land, assess opportunity/access to acquire leased land for the establishment of farm and improved fodder (pertains to dairy farming);
- 3.2.3 Location of the proposed livestock farm – nearness to market and consumers and away from Government reserved/protected/catchment areas, stream and river bank (to avoid pollution by animal excreta to water bodies);
- 3.2.4 Project should not pose ecological/environmental impact;
- 3.2.5 Existence of similar livestock farms in the vicinity;
- 3.2.6 Access to reliable water supply system;
- 3.2.7 Access to road and electricity preferred; and
- 3.2.8 Social issues and odour/pollution to nearby settlement/community.

#### **4. Adoption and Review**

- 4.1 This edition of the SOP has been developed in consultation with the relevant stakeholders for implementation with effect from 1st July 2021;
- 4.2 The SOP should be used in conjunction with the PSL Guidelines issued by the Royal Monetary Authority of Bhutan; and
- 4.3 The SOP will be reviewed and amended if necessary. Any changes and additions, if any, will be communicated through the official letter to accompany the main SOP document.

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